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David M. Moffett  
Vice Chairman and CFO

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January 18, 2006

Office of the Comptroller of the Currency  
250 E Street, SW  
Public Information Room  
Mailstop 1-5  
Washington, D.C. 20219

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

Mr. Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

Ladies and Gentlemen:

U.S. Bancorp welcomes the opportunity to respond to the Agencies' Advance Notice of Proposed Rulemaking ("ANPR") for proposed revisions to the current risk-based capital rules. U.S. Bancorp, with \$207 billion in assets, is the 6th largest financial holding company in the United States. The company operates 2,411 banking offices and 4,999 ATMs in 24 states, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

U.S. Bancorp supports the Agencies intent to create a more risk sensitive capital framework through the use of risk sensitive segmentation of portfolios. The use of external ratings, loan to value ratio, and credit scores are a step in the right direction towards a more transparent and risk sensitive capital attribution.

We believe, based upon the specifications in the ANPR, that the capital under the proposed rule could result in higher capital requirements than the current rule. We believe that higher regulatory capital requirements would be overly conservative.

While we support the general approach outlined in the ANPR, we are concerned that substantial work on calibration remains to be performed and that the framework should be more explicitly described. We urge the Agencies to conduct another advanced notice of proposed rulemaking with a more explicit framework and suggested calibration to provide the industry an opportunity to comment upon the calibration of the proposed capital rule.

The ANPR proposes that the revised capital rules become the floor during the phase-in time period for Basel II. U.S. Bancorp urges the agencies to make this optional. Banks that adopt the Basel II Accord will spend significant effort and expense to implement Basel II. The development of reporting for revised current capital rules would be a significant expense that would only be utilized for a relatively short time period.

The remainder of this letter is composed of specific responses to items in the ANPR.

Sincerely,

A handwritten signature in dark ink, appearing to read "David M. Moffett", with a stylized, cursive script.

David M. Moffett

Vice Chairman and Chief Financial Officer  
U.S. Bancorp

## **U.S. Bancorp Responses to ANPR Questions**

### **Expansion of the use of Nationally Recognized Statistical Rating Organizations (NRSROs) to assign risk weights.**

U.S. Bancorp supports the expanded use of NRSRO ratings for the determination of capital requirements. The use of external ratings is a transparent and readily available measure. We believe that the risk weights assigned to the credit ratings should be consistent with the risk weights used in the Basel II standardized approach. The ANPR doesn't propose a method for unrated exposures. We believe that on average the assignment of a 100 percent risk weight to unrated exposures is reasonable. As discussed in the next section, the proposed expanded use of collateral and guarantees will reduce the regulatory capital burden on unrated exposures. We don't believe that it would be appropriate to use internal ratings in this proposal. To use internal ratings a bank should adopt the Basel II advanced internal ratings based approach.

### **Expansion of the list of eligible collateral to include investment grade debt and asset backed securities.**

U.S. Bancorp supports the expansion of eligible collateral to include investment grade debt and asset backed securities. This information is readily available in collateral management systems.

We also encourage the expansion to include other types of collateral including equities that can be readily priced, controlled and are liquid. This approach should also be extended to exposures collateralized with receivables that are short lived and are liquid and readily controlled.

### **Use of external credit ratings for guarantors**

U.S. Bancorp supports the use of external credit ratings for guarantors.

### **One-to-four family residential mortgages**

We would urge the Agencies to use the 35 percent risk weight proposed in the standardized approach of the Basel II Accord for residential real estate. If a risk segmentation approach is utilized, we believe that it is important to use factors that are readily available throughout the industry that are simple to collect and useful as a risk management measure. The use of loan to value is a simple measure that is commonly used. There should be further study to assess the effectiveness of loan to value as a segmentation factor and the proper calibration.

The ANPR includes a proposal increase the risk weight for certain second mortgage loans with a loan to value higher than 90 percent to a risk weight higher than 100 percent. We believe that the 100 percent risk weight is sufficient for these second mortgages.

**Other retail exposures**

We recommend that the Agencies use the 75 percent risk weight specified in the Basel II Accord for the standardized approach. If a segmentation approach is to be utilized, then we believe that this approach should be simple and practical. Using a loan to value ratio is the best approach for secured lending. We urge the Agencies to conduct further studies to determine the appropriate calibration of the risk weights for the risk segments.

For unsecured retail exposures the Basel II standardized risk weight of 75percent is appropriate. We believe that the use of credit scores and ratings should be applied in the advanced internal ratings based approach of Basel II and not used in the revision of the current capital accord as addressed by this ANPR.

**Short-term commitments**

The application of a credit conversion factor to commitments less than one year is consistent with a more risk sensitive approach. The Agencies proposed two approaches for credit conversion factors for unused commitments. One approach assigned a 10 percent conversion factor to commitments with an original remaining maturity less than one year. The second approach applied a 20 percent conversion factor to all unused commitments. We believe that the more risk sensitive approach would apply a 10 percent conversion factor to commitments with a remaining maturity less than one year while assigning the 50 percent conversion factor for commitments with a remaining maturity greater than one year.

**Loans 90 days or more past due or in non-accrual**

Loans that are 90 days or more past due or in non-accrual should receive a 100 percent risk weight. These loans are factored into a bank's reserve allocations and the remaining risk after these reserves are adequately capitalized using a 100 percent risk weight.

**Commercial real estate exposures**

The use of a loan to value ratio to segment commercial real estate would be a consistent method to broadly assign a risk weight. U S Bancorp use additional measures to assess credit risk besides the loan to value ratio. But we believe that the use of the loan to value ratio would be an improvement in risk sensitivity. This LTV segmentation should be prepared by property type to more accurately assign the appropriate risk weight.

**Small business loans**

The Agencies proposed that certain small business loans receive a favorable risk weight of 75 percent if the loans meet certain requirements. These requirements include a total consolidated borrower exposure under \$1 million, a loan that must fully amortize over a time period of seven years or less, and have full collateral. We believe that these collective requirements are too burdensome. We believe that the 75 percent risk weight is appropriate.

**Other risks**

The Basel II Accord allocates capital to credit and operational risk. This ANPR does not include a specific allocation for operational risk. Assuming that the credit risk segments

are appropriately calibrated, it would be appropriate to include an operational capital charge that is based on simple metrics. This would provide consistency with the design of the capital system between the ANPR and the proposed Advanced Measurement Approach under the Basel II Accord.